IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ERICSSON INC., et al., **Plaintiffs,** **vs.** **D-LINK CORPORATION, et al.,** **D-Links.**	**Civil Action No. 6:10-cv-473** **JURY TRIAL DEMANDED**

DEFENDANTS' BENCH MEMORANDUM IN OPPOSITION TO ERICSSON'S PROPOSED FINAL JURY INSTRUCTION NO. 33

In accordance with the Court's instructions on the record during today's charge conference, Defendants respectfully submit this document concerning the following instruction proposed by Ericsson for inclusion in the final jury instructions:[1]

> An infringer's net profit margin is not the ceiling by which a reasonable royalty is capped. The infringer's selling price can be raised if necessary to accommodate a higher royalty rate. Requiring the infringer to do so may be the only way to adequately compensate the patentee for the use of its patented technology.

Defendants object to this instruction and respectfully submit that the Court should reject it for at least the following reasons.

Defendants object to inclusion of this proposed instruction for several reasons. *First*, this instruction is unnecessary. The Court's reasonable royalty instruction,[2] already explains how an alleged infringers' profits should be considered in determining a reasonable royalty. Including

[1] The Court initially rejected this instruction but, during the charge conference, agreed to take this instruction under advisement and allow Defendants to submit an alternative proposed instruction and briefing on the issue.

[2] As stated on the record during the charge conference, Defendants object to the reasonable royalty instruction proposed by the Court because Defendants believe it is inconsistent with Ericssons's RAND obligations. Defendants maintain those instructions.

this instruction will therefore be confusing to the jury and prejudicial to Defendants as it will emphasize one of the *Georgia-Pacific* factors over all of the other factors that are to be considered by the jury.

Second, Ericsson's proposed instruction omits the requirement that a reasonable royalty should leave an infringer with a reasonable profit. Ericsson's proposed instruction is an incomplete, misleading, and prejudicial statement of the law for it is well-established that a reasonable royalty is defined as: "[t]he amount that 'a person, desiring to manufacture[, use, or] sell a patented article, as a business proposition, would be willing to pay as a royalty ***and yet be able to make[, use, or] sell the patented article, in the market, at a reasonable profit***.'" *Applied Med. Resources Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1361 (Fed. Cir. 2006) (quoting *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568 (Fed. Cir. 1984) (emphasis added). Accordingly, implicit in a reasonable royalty is the principle that "a reasonable royalty would leave an infringer with reasonable profit." *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081 (Fed. Cir. 1983); *see also Micro Chem., Inc. v. Lextron, Inc.*, 161 F.Supp.2d 1187, 1209 (D. Colo. 2001) ("[A] reasonable royalty is one that leaves the infringer with some profit. ***After all, no reasonable person would enter into a license in which they had agreed to pay more than their expected profit.***") (emphasis added) By focusing on the issue of a cap, and omitting the need for an accused infringer to make a reasonable profit, Ericsson's Proposed Final Instruction No. 33 is clearly prejudicial. Further, by failing to inform the jury of an essential element of a reasonable royalty it is incorrect and incomplete as a matter of law and should be denied.

Third, Ericsson's proposed instruction omits the essential requirement that hypothetical negotiation must be based on the expectations of the parties at the time of first infringement. Yet

the law is clear a reasonable royalty is derived by "envision[ing] the terms of a licensing agreement reached as the result of a supposed [bargain] between the patentee and the infringer ***at the time infringement began***." *Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1372 (Fed. Cir. 2008) (emphasis added). Critical to assessing a reasonable royalty, therefore, "is the necessity for return to the date when the infringement began." *Panduit Corp. v. Stahlin Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978). This is because, as the Federal Circuit has explained, "the value of a hypothetical license negotiated in [one year] could be drastically different from one undertaken in [a later year]" due to changes in the state of the technology, the parties' needs, expectations, market conditions, or other factors. *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870 (Fed. Cir. 2003), *rev'd on other grounds by Merck KGaA v.Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005). Ericsson's instruction is thus incomplete, misleading, and prejudicial as it fails to inform the jury that any assessment of the infringer's profits must be based on their expectations at the time of the hypothetical negotiation. *See, e.g., Lucent Techs., Inc. v.* Gateway, Inc., 580 F. 3d 1301, 1324 (Fed. Cir. 2009) (approving use of analytical method based on "calculating damages based on the infringer's own internal profit projections for the infringing item at the time the infringement began, and then apportioning the projected profits between the patent owner and the infringer"); *cf. Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001) (affirming reasonable royalty award that exceeded infringers actual net profits based on expectations in patentee's business plan, which was prepared two months before infringement began).

Fourth, there is no evidentiary basis for Ericsson's Proposed Final Instruction No. 33 as Ericsson has failed to put in any evidence regarding (i) Defendants' profit margins; and (ii) Defendants' ability to raise their prices and still sell their products at a reasonable profit. Such

evidence, however, is critical as any reasonable royalty should take into account "the impact that increased prices would have had on demand . . . [as 'a]ll markets must respect the law of demand. According to the law of demand, consumers will almost always purchase fewer units of a product at a higher price than at a lower price, possibly substituting other products.'" *Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd.*, 476 F.Supp.2d 1143, 1156-117 (N.D. Cal. 2007) (quoting *Crystal Semiconductor Corp. v. TriTech Microelectronics Intern., Inc.*, 246 F.3d 1336, 1359 (Fed. Cir. 2001). Having failed to put any evidence on these central issues to its Proposed Final Instruction No. 33, Ericsson is not entitled to this jury instruction. *In re Newchurch*, 807 F.2d 404, 411 (5th Cir. 1986) ("[D]efendants are not entitled to a jury instruction on the issue . . . if there is no evidence to support it[.]").

Fifth, Ericsson's proposed instruction is inconsistent with Ericsson's admitted RAND obligations. Ericsson's instruction suggests that the jury may find that a reasonable royalty may be funded out of the hold up value of 802.11n based on the fact that consumers and others are locked in to the standard. RAND obligations are meant to ensure this does not occur. *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, *12 ¶ 71 (W.D. Wash. Apr. 25, 2013) ("In the context of a dispute concerning whether or not a given royalty is RAND, a proper methodology used to determine a RAND royalty should therefore recognize and seek to mitigate the risk of patent hold-up that RAND commitments are intended to avoid.")

In the event an instruction is provided over these objections, and without waiver of those objections, Defendants provide the alternate proposed instruction attached hereto as Exhibit A.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that all counsel of record who are deemed to have consented to electronic service are being served with a copy of this document via the Court's CM/ECF system per Local Rule CV-5(a)(3) on June 11, 2013.

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